

MARICOPA COUNTY MEDICAL CENTER

Report on Audit of Financial Statements

June 30, 2002

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the accompanying financial statements of the Maricopa County Medical Center as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Maricopa County Medical Center's financial statements are intended to present the financial position and changes in financial position, including cash flows, of only that portion of the business-type activities and major funds of the County that is attributable to the transactions of the Medical Center. They do not purport to, and do not, present fairly the financial position and changes in financial position, including cash flows, of the County in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Maricopa County Medical Center as of June 30, 2002, and the changes in financial position, including cash flows of the Medical Center, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, Maricopa County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2002, to implement a new financial reporting model.

Debbie Davenport
Auditor General

October 10, 2002

MARICOPA COUNTY MEDICAL CENTER
Statement of Net Assets
Enterprise Fund
June 30, 2002

Assets

Current assets:

Cash and investments held by trustee	\$ 5,790,034
Accounts receivable (net of allowance for uncollectibles \$78,466,811)	50,226,660
Due from other County funds	2,714,242
Due from other governmental units	1,897,909
Inventory of supplies	6,436,921
Prepaid items	3,164,533
Other	<u>766,845</u>
Total current assets	<u>70,997,144</u>

Noncurrent assets:

Capital assets, not being depreciated:

Land	1,722,193
Construction in progress (estimated cost to complete \$4,709,201)	<u>25,650,364</u>
Total capital assets, not being depreciated	<u>27,372,557</u>

Capital assets, being depreciated:

Buildings	82,735,499
Improvements other than buildings	3,636,145
Machinery and equipment	<u>86,310,183</u>
Total capital assets, being depreciated	<u>172,681,827</u>
Accumulated depreciation	<u>(86,912,768)</u>

Total capital assets, being depreciated, net	<u>85,769,059</u>
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Total noncurrent assets	<u>113,141,616</u>
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Total assets	<u>\$ 184,138,760</u>
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(Continued)

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Net Assets
Enterprise Fund
June 30, 2002
(Continued)

Liabilities

Current liabilities:

Vouchers payable	\$ 12,722,390
Employee compensation	6,841,186
Accrued liabilities	172,878
Due to other County funds	57,510,892
Due to other governmental units	775,048
Deferred revenue	1,545,744
Accrued interest	263,641
Installment purchase agreements	436,342
Certificates of participation	769,000
Bonds payable	2,657,423
Interest payable for long-term debt	<u>311,832</u>

Total current liabilities	<u>84,006,376</u>
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Noncurrent liabilities:

Installment purchase agreements	2,171,473
Certificates of participation	10,777,000
Bonds payable	<u>15,328,821</u>

Total noncurrent liabilities	<u>28,277,294</u>
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Total liabilities	<u>112,283,670</u>
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Net Assets:

Invested in capital assets, net of related debt	80,347,073
Restricted for:	
Debt service	1,080,833
Construction	4,709,201
Other	1,545,744
Unrestricted deficit	<u>(15,827,761)</u>
Total net assets	<u>\$ 71,855,090</u>

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Revenues, Expenses, and Changes in
Fund Net Assets—Enterprise Fund
Year Ended June 30, 2002

Operating revenues:	
Patient service revenues	\$ 487,699,115
Deductions from patient service revenues:	
Contractual and administrative adjustments (including \$50,945,689 of Medicare billings in excess of cost reimbursements)	(93,689,038)
Maricopa County Health Plans/Arizona Health Care Cost Containment System contractual adjustments	<u>(119,196,066)</u>
Net patient service revenues	<u>274,814,011</u>
Other operating revenues:	
Disproportionate share settlement	45,895,500
Charges for services	17,132,382
Other	<u>1,887,175</u>
Total other operating revenues	64,915,057
Deductions from other operating revenues:	
Disproportionate share reimbursements	<u>(45,895,500)</u>
Net other operating revenues	<u>19,019,557</u>
Net operating revenues	<u>293,833,568</u>
Operating expenses:	
Daily hospital services	59,038,494
Outpatient nursing services	46,924,631
Special nursing services	19,398,742
Ancillary services	52,185,062
General services	20,606,515
Fiscal services	21,309,807
Administrative services	11,407,179
Medical services administration	16,824,676
Provision for doubtful accounts	56,856,455
Indigent patient direct write-offs	16,301,482
Depreciation	10,541,914
Other	<u>4,033,915</u>
Total operating expenses	<u>335,428,872</u>
Operating loss	(41,595,304)

(Continued)

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Revenues, Expenses, and Changes in
Fund Net Assets—Enterprise Fund
Year Ended June 30, 2002
(Continued)

Nonoperating revenues (expenses):	
Grant revenue	\$ 5,014,958
Interest income	184,086
Interest expense	<u>(5,127,724)</u>
Net nonoperating revenues	71,320
Loss before transfers	(41,523,984)
Transfers from other County funds	66,217,416
Transfers to other County funds	<u>(941,914)</u>
Increase in net assets	23,751,518
Total net assets, July 1, 2001	<u>48,103,572</u>
Total net assets, June 30, 2002	<u><u>\$ 71,855,090</u></u>

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2002

Cash flows from operating activities:	
Cash receipts from:	
Contractors, patients and other payors	\$ 219,602,540
Disproportionate share settlement	45,895,500
Cash payments to:	
Contractors for health care services	(57,467,168)
Suppliers for goods and services	(58,009,708)
Employees for services	(136,243,015)
Disproportionate share reimbursement	<u>(45,895,500)</u>
Net cash used for operating activities	<u>(32,117,351)</u>
Cash flows from noncapital financing activities:	
Loan from County General Fund	57,502,195
Grant receipts	5,304,728
Cash transfers from other County Funds	79,390,499
Cash transfers to other County Funds	(941,914)
Interest payments	(4,440,367)
Loan payments to County General Fund	<u>(91,260,183)</u>
Net cash provided by noncapital financing activities	<u>45,554,958</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(28,289,491)
Capital lease payments	(229,159)
Installment purchase contract payments	(415,296)
Lease revenue bond payments	(2,513,756)
Interest payments for long-term debt	<u>(1,145,187)</u>
Net cash used for capital and related financing activities	<u>(32,592,889)</u>
Cash flows from investing activities:	
Interest receipts	<u>184,086</u>
Net cash provided by investing activities	<u>184,086</u>
Net decrease in cash and cash equivalents	(18,971,196)
Cash and cash equivalents, July 1, 2001	<u>24,761,230</u>
Cash and cash equivalents, June 30, 2002	<u><u>\$ 5,790,034</u></u>

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2002
(Continued)

Operating loss	\$ (41,595,304)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	10,541,914
Provision for doubtful accounts	56,856,455
Indigent patient direct write-offs	16,301,482
Net changes in assets and liabilities:	
Accounts receivable	(73,675,182)
Due from other County funds	(555,846)
Inventory of supplies	(789,217)
Prepaid items	858,887
Other assets	(766,845)
Vouchers payable	333,200
Employee compensation liability	1,204,714
Accrued liabilities	(71,137)
Due to other County funds	(44,224)
Due to other governmental units	(716,248)
Net cash used for operating activities	<u><u>\$ (32,117,351)</u></u>

The following noncash transactions occurred during the year ended June 30, 2002.

Allowance for uncollectible accounts	\$ 50,167,887
Accounts receivable write-offs	\$ (50,167,887)
Buildings	\$ 11,665,461
Improvements other than buildings	\$ 368,234
Construction in progress completed	\$ (12,033,695)
Accumulated depreciation	\$ 233,544
Machinery and equipment disposed	\$ (233,544)
Buildings acquired	\$ 28,613
Machinery and equipment acquired	\$ 897,319
Vouchers payable	\$ (925,932)

See accompanying notes to financial statements.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Maricopa County Medical Center have been prepared in a format that complies with the Health Care Organizations Audit and Accounting Guide of the American Institute of Certified Public Accountants and the regulatory reporting requirements of the State of Arizona. The accounting policies of the Medical Center conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2002, Maricopa County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model for state and local governments. As a result, the Medical Center adopted the reporting requirements for business-type activities specified by the pronouncement. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures. A summary of the Medical Center's more significant accounting policies follows.

A. Reporting Entity

The Medical Center is accounted for as an enterprise fund of Maricopa County, Arizona, under the direction of an administrator contracted by the County Board of Supervisors. However, ultimate fiscal responsibility for the Medical Center remains with the County. The Medical Center provides both inpatient and outpatient medical and nursing services to the general public, indigent patients of the County, and eligible enrollees of the Arizona Health Care Cost Containment System (AHCCCS).

B. Fund Accounting

The Medical Center's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Medical Center's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The Medical Center's financial transactions are recorded and reported as an enterprise fund since its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

C. Basis of Presentation and Accounting

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of the Medical Center at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy the Medical Center's obligations. Invested in capital assets net of related debt represents the value of capital assets, net of accumulated depreciation less any outstanding debt incurred to acquire or construct the asset. Restricted net assets represent grants for special programs, certificates of participation proceeds to be used for construction, and monies held in the trustee accounts for future debt service payments. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the Medical Center's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in assets are reported, including grants and transfers. Generally, patient service revenues and charges for services are considered to be operating revenues. Other revenues used for medical services, such as grants and investment income, are not generated from operations and are considered to be nonoperating revenues.

A statement of cash flows provides information about the Medical Center's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

The financial statements are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Medical Center applies only those applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments

For purposes of its statement of cash flows, the Medical Center considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

E. Accounts Receivable

Accounts receivable are due from a variety of self-pay, third-party, AHCCCS, and Medicare patients. The allowance for uncollectible accounts is based upon management's evaluation of the collectibility of the accounts.

F. Inventory of Supplies

Inventories are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

G. Capital Assets

Purchased property, plant, and equipment are capitalized at actual cost. Major outlays for assets or improvements to them are capitalized as projects are constructed. Interest incurred during the construction phase of the project is capitalized net of interest earned on the invested proceeds over the same period. Depreciation of property, plant, and equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The capitalization thresholds are \$5,000 for buildings and improvements other than buildings and \$1,000 for machinery and equipment. The estimated useful lives are as follows:

Buildings	10 to 50 years
Improvements other than buildings	10 to 50 years
Machinery and equipment	3 to 10 years

H. Employee Compensation Payable

Employee Compensation payable consists of payroll related costs incurred but not paid at June 30, and personal leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of personal leave depending on years of service, but any personal leave hours in excess of the maximum amount that are unused by the calendar year-end are converted to family medical leave (FML). Generally, FML benefits are used by employees for FML qualifying events and are cumulative but do not vest with employees and therefore, are not accrued. However, upon retirement, employees with accumulated FML in excess of 1,000 hours are entitled to a \$3,000 bonus. The total amount of such bonuses is immaterial and therefore it is not reported in the employee compensation payable.

I. Patient Service Revenues

Patient service revenues, including services provided to indigent patients of the County, are recorded at established rates regardless of whether collection in full is

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

expected. Contractual and administrative adjustments and uncollectible accounts are recorded as deductions from patient service revenues.

The Medical Center provides services to patients under a contractual agreement with the Medicare program. Amounts received from Medicare are determined based upon a mix of prospectively determined payments and reimbursement of allowable expenses for patient service costs, capital costs, and medical education costs.

The Medical Center also provides services to patients under agreements with AHCCCS, County Health Plans, and various County departments. The most significant of these agreements are with the Maricopa County Health Plan (MCHP) and Arizona Long-Term Care System (ALTCs) Health Plan. Payments for services under these agreements are based on discounted amounts from established rates.

J. Grant Revenues

Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenses are incurred.

K. Charity Care

Since the Medical Center is owned and operated by the County, it is prohibited by Arizona Revised Statutes from providing care to patients without charging them for such services. Accordingly, there is no charity care recognized for the year ended June 30, 2002. However, the Medical Center, as a provider of care to indigent as well as nonindigent patients, does provide care to patients who may not have the ability to pay. Consequently, the charges (i.e., revenues) for the unreimbursed care provided to these patients are offset by increasing the allowance for uncollectibles.

Note 2 - Accounting Changes

As a result of the implementing GASB Statement No. 34, the County made several accounting and reporting changes. The most significant change is that fund equity has been relabeled as net assets, and its components have changed as described in Note 1.

Note 3 - Cash and Investments Held by Trustee

Cash and investments held by trustee consist of government security mutual funds that are not subject to collateralization. These monies are to be used for the construction of a clinic, to make renovations at the Medical Center, and for debt service payments. All investments are stated at fair value.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	\$ 302,193	\$ 1,420,000		\$ 1,722,193
Construction in Progress (estimated cost to complete \$4,709,201)	<u>33,304,314</u>	<u>4,379,745</u>	<u>\$(12,033,695)</u>	<u>25,650,364</u>
Total capital assets, not being depreciated	<u>33,606,507</u>	<u>5,799,745</u>	<u>(12,033,695)</u>	<u>27,372,557</u>
Capital assets, being depreciated:				
Buildings	71,070,038	11,665,461		82,735,499
Improvements other than buildings	2,372,497	1,295,292	(31,644)	3,636,145
Machinery and equipment	<u>70,870,584</u>	<u>15,641,499</u>	<u>(201,900)</u>	<u>86,310,183</u>
Total capital assets, being depreciated	<u>144,313,119</u>	<u>28,602,252</u>	<u>(233,544)</u>	<u>172,681,827</u>
Less accumulated depreciation for:				
Buildings	(33,860,668)	(3,258,234)		(37,118,902)
Improvements other than buildings	(1,329,932)	(177,024)	31,644	(1,475,312)
Machinery and equipment	<u>(41,413,798)</u>	<u>(7,106,656)</u>	<u>201,900</u>	<u>(48,318,554)</u>
Total accumulated depreciation	<u>(76,604,398)</u>	<u>(10,541,914)</u>	<u>233,544</u>	<u>(86,912,768)</u>
Total capital assets, being depreciated, net	<u>67,708,721</u>	<u>18,060,338</u>	<u>-</u>	<u>85,769,059</u>
Total capital assets, net	<u>\$101,315,228</u>	<u>\$23,860,083</u>	<u>\$(12,033,695)</u>	<u>\$113,141,616</u>

Note 5 - Due To Other County Funds

Due to other County funds consists of \$57,502,195 due to the County General Fund for advances received to temporarily eliminate cash overdrafts in the Medical Center Fund and \$8,697 due to other County Funds for goods and services received.

Note 6 - Operating Leases

The Medical Center leases medical equipment and office space under the provisions

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of the operating leases were \$1,612,462 for the year ended June 30, 2002. The operating leases have remaining noncancelable lease terms between 11 months to 1 year and some provide renewal options.

The future minimum payments required under the operating leases at June 30, 2002, were as follows:

Year ending June 30, 2003	<u>\$510,230</u>
Total minimum lease payments	<u>\$510,230</u>

Note 7 - Installment Purchase Contracts Payable

Installment purchase contracts payable consist of agreements for the acquisition of CAT Scan and MRI equipment at a total purchase price of \$3,278,464. The future minimum payments required under the contracts at June 30, 2002, including interest varying from 4.5 to 5.82 percent, are as follows:

Year ending June 30,

2003	\$ 555,306
2004	555,306
2005	555,306
2006	555,306
2007	555,306
Thereafter	<u>195,464</u>
Total minimum payments	\$2,971,994
Less amount representing interest	<u>364,179</u>
Present value of net minimum least payments	<u>\$2,607,815</u>

Note 8 - Certificates of Participation Payable

During the year ended June 30, 2000, the Medical Center issued \$5,300,000 in certificates of participation with interest rates of 5.5 to 6.0 percent to construct a clinic and make renovations at the Medical Center. The certificates are generally noncallable, with interest payable semiannually.

During the year ended June 30, 2001, the Medical Center issued \$6,975,000 in certificates of participation with interest rates of 4.5 to 5.5 percent to purchase and renovate a hospital and medical office complex. The certificates are generally callable after July 1, 2010, with interest payable semiannually.

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

Principal and interest requirements at June 30, 2002, were as follows:

Description	Interest Rates	Maturities	Outstanding Principal
Certificates of Participation 2000	5.7-6.0%	7/1/02-7/1/10	\$5,006,000
Certificates of Participation 2001	4.6-5.5%	7/1/02-7/1/15	\$6,540,000

Certificates of participation debt service requirements to maturity, including \$4,409,498 of interest, are as follows:

Year ending June 30,	
2003	\$1,392,663
2004	1,392,461
2005	1,396,738
2006	1,399,105
2007	1,396,457
2008-2012	6,273,064
Thereafter	<u>2,705,010</u>
Total	<u>\$15,955,498</u>

Note 9 - Bonds Payable

During the year ended June 30, 2001, the County issued \$124,855,000 in lease revenue bonds with interest rates of 3.45 to 5.5 percent. Of the proceeds received, the County allocated \$20,500,000 to the County Medical Center to construct a comprehensive health clinic. The bonds are generally callable after July 1, 2012, with interest payable semiannually.

Principal and interest requirements at June 30, 2002, were as follows:

Description	Interest Rates	Maturities	Outstanding Principal
Lease Revenue Bonds Series 2001	3.45-5.5%	7/1/02-7/1/15	\$17,986,244

Lease revenue bond debt service requirements to maturity, including \$6,788,374 of interest, are as follows:

Year ending June 30,	
2003	\$3,593,655
2004	1,752,381
2005	1,754,779
2006	1,758,194
2007	1,762,932
2008-2012	8,832,113
Thereafter	<u>5,320,564</u>
Total	<u>\$24,774,618</u>

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

Note 10 - Changes in Long-Term Liabilities

Long-term liability activity for the year-ended June 30, 2002, was as follows:

	Balance July 1, 2001	Reductions	Balance June 30, 2002
Installment purchase contracts payable	\$ 3,023,111	\$ (415,296)	\$ 2,607,815
Certificate of participation payable	11,546,000		11,546,000
Bonds payable	<u>20,500,000</u>	<u>(2,513,756)</u>	<u>17,986,244</u>
Total Long-Term Liabilities	<u>\$35,069,111</u>	<u>\$(2,929,052)</u>	<u>\$32,140,059</u>

Note 11 - Unrestricted Net Assets Deficit

The unrestricted net assets deficit totaling \$15,827,761 at June 30, 2002, resulted from normal operations of the Medical Center over a period of several years. The deficit can be permanently corrected through profitable operations or by transfers from the County. During the year ended June 30, 2002, the Medical Center received \$66,217,416 of subsidies from the County General Fund.

Note 12 - Disproportionate Share Settlement

Section 1923 of the Social Security Act establishes federal requirements designed to aid entities that provide medical services to a disproportionate share of medically indigent patients. These requirements were met for the year ended June 30, 2002, through disproportionate share settlements established by Laws 2001, Second Special Session, Chapter 5. AHCCCS was directed to distribute such settlements based on various qualifying criteria and allocation processes. Laws 2001 appropriated disproportionate share settlement amounts to be distributed to the hospitals for the year ended June 30, 2002. The Medical Center's share of the settlement for the year ended June 30, 2002, totaled \$45,895,500. However, Laws 2001, Second Special Session, Chapter 7, also mandated the reimbursement of the total settlement through the State Treasurer to the State General Fund.

Note 13 - Related Party Transactions

During the year ended June 30, 2002, patient service revenues and charges for services included \$37,963,982 and \$25,100,277 received from the County MCHP and ALTCS Funds, respectively.

Note 14 - Risk Management

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees;

MARICOPA COUNTY MEDICAL CENTER
Notes to Financial Statements
June 30, 2002

medical malpractice; and natural disasters. The Medical Center is a participant in Maricopa County's self-insurance program, and in the opinion of the Medical Center's management, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, the Medical Center has no risk of loss beyond adjustments to future years' premium payments to Maricopa County's self-insurance program. All estimated losses for unsettled claims and actions of Maricopa County are determined on an actuarial basis and are included in the *Maricopa County Comprehensive Annual Financial Report*.

Note 15 - Subsequent Event

On July 1, 2002, the County Board of Supervisors discontinued its contract with the private sector company that had been managing, operating, and administering the Medical Center for the last 5 and a half years. The Board then hired the chief executive officer and the chief financial officer as County employees.

Note 16 - Retirement Plan

Plan Description – The Medical Center contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Medical Center's contribution rate. For the year ended June 30, 2002, active plan members and the Medical Center were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Medical Center's contributions to the System for the years ended June 30, 2002, 2001, and 2000 were \$2,629,401, \$2,321,225, and \$2,052,593, respectively, which were equal to the required contributions for the year.